LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7559
BILL NUMBER: HB 1450

NOTE PREPARED: Jan 20, 2011
BILL AMENDED:

SUBJECT: Unemployment Insurance.

FIRST AUTHOR: Rep. Leonard
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: *On-Call Employees:* This bill provides that an individual employed for any week on an on-call or as-needed basis and who receives remuneration for personal services or has available work from an on-call employer is not totally or partially unemployed for purposes of receiving an unemployment benefit.

Benefit Calculations: This bill removes the cap on wage credits. It establishes the weekly unemployment insurance benefit amount as 47% of the individual's prior average weekly wage. The bill also establishes the maximum weekly benefit amount at $390. It removes from the definition of "deductible income": (1) for a week in which a payment is actually received by an individual, payments made by an employer to an individual who accepts an offer from the employer in connection with a layoff or a plant closure; and (2) the part of a payment made by an employer to an individual who accepts an offer from the employer in connection with a layoff or a plant closure if that part is attributable to a week, and the week: (A) occurs after an individual receives the payment; and (B) was used under the terms of a written agreement to compute the payment. The bill includes in the definition of "deductible income": (1) compensation made under a valid negotiated contract or agreement in connection with a layoff or plant closure, without regard to how the compensation is characterized by the contract or agreement; and (2) a supplemental unemployment insurance benefit made under a valid negotiated contract or agreement.

Surcharge: The bill provides for an annual employer surcharge that, for 2011, is equal to 13% of the contribution rate paid by the employer, if the state is required to pay interest on advances made to the state from the federal unemployment account in the Federal Unemployment Trust Fund. For a calendar year after 2011, It requires the Department of Workforce Development (DWD) to determine the surcharge percentage for the year by January 31 based on: (1) the interest rate charged the state for the year; and (2) the state's

outstanding loan balance to the federal unemployment account on January 1. The bill allows DWD to use the employer surcharge to repay interest on federal advances. It also establishes the Unemployment Insurance Solvency Fund for the part of the employer surcharge used to repay interest on federal advances.

Rate Schedules: The bill provides that, for calendar years 2011 through 2020, Schedule E applies in determining and assigning each employer's contribution rate.

Head Start: The bill provides that unemployment benefits may not be paid to an individual employed by a Head Start or an Early Head Start program for a week during a period between two successive academic years or terms if the individual performs the employment in the first academic year or term and there is a reasonable assurance that the individual will be employed in the second academic year or term.

Temporary Unemployment: The bill specifies the benefit computation for an individual who is temporarily unemployed because of a planned shutdown of the individual's employer.

The bill makes conforming amendments.

Effective Date: December 31, 2010 (retroactive); July 1, 2011.

Explanation of State Expenditures: *On-Call Employees:* The bill could reduce unemployment expenditures for the employees customarily employed on an on-call or as-needed basis. The category would include substitute teachers and medical personnel who are employed on a an as-needed basis. The potential reduction in unemployment expenditures is unknown. However, the provisions should not have an impact on the state as an employer.

Benefit Calculations: The bill would change the basis of the calculation of benefits from the highest quarter in the base period to the total wages in the base period. Currently, the calculation is based on the highest quarterly wage earnings in the base period, not to exceed $9,250 in wage credits. The benefit is then 5% of the first $2,000 and 4% of the wage credits over $2,000. The maximum weekly benefit is $390 [$2,000*0.05+(9,250-2,000)*0.04]. The new calculation would be 47% of the individual average weekly wage for the base period, not to exceed $390. Based on a 2008 sample of about 230,000 claims during the year, the change would reduce benefit expenditures by about 25%. The 2008 claims information was used instead of 2009 or 2010 because 2008 was before the recession and might be a better reflection of claims. Benefit payments were about $1.4 B in FY 2010, $1.7 B in FY 2009, $785.8 M in FY 2008, and $736.8 M in FY 2007. Potential savings would have varied from $184 M to $425 M if these provisions had been applied over the last four years.

Head Start: The bill could reduce the expenditures from each Head Start and Early Head Start employer's experience account in the Unemployment Trust Fund. There are about 3,019 Head Start and Early Head Start staff in Indiana, the maximum unemployment benefit is $390 per week, and the average weekly benefit is about $300. A reduction of one week of unemployment benefits for 3,019 employees at the average weekly benefit would reduce expenditures by $905,700.

Temporary Unemployment: The impact would be a decreased expense for the Unemployment Trust Fund. The impact would depend on the number of planned shutdowns and whether the employer appealed the unemployment claim. There were about 10,700 claimants in the manufacturing industry that collected benefits in 2005, 2006, and 2007. The number of claimants to receive benefits sometime during the year each year increased to about 20,000 for 2007, 2008,and 2009. Using an average weekly benefit of about $300 and assuming that about 5,000 of the claims were for shutdowns for four weeks, the savings would be about $6 M. The provisions should not have an impact on the state as an employer.

Explanation of State Revenues: *Surcharge:* DWD is required to start paying interest on advances from the federal government for unemployment benefits. The Unemployment Trust Fund owed $1.955 B on December 30, 2010. The interest on the loans has varied between 4% and 5% over the last year. The bill would require for CY 2011 that employers pay an additional 13% of their contributions to pay interest required by the federal government. The surcharge would raise about $90 M to pay the interest requirements. DWD would calculate the surcharge necessary to pay interest in future years.

Rate Schedules: The bill changes the schedule for the next few years to Schedule E instead of the current law that would use Schedule B in CY 2011 and then Schedule A for several years. The reduction in the premium rates would vary between 25% and 33%, depending on employers' experience ratings. The reduction in revenue to the Unemployment Trust Fund would be about $180 M in CY 2011 and $242 M in CY 2012. The change in the rates would extend the time necessary for the Trust Fund to reach a positive balance by about three years, depending on the economy.

Background: Employers currently are required to pay 0.8% of the first $7,000 of taxable wages to the federal government for federal unemployment. The rate is 6.2% but employers get a 5.4% credit if the state has a financially sound unemployment system. Beginning with CY 2011, the rate on the employer will increase by 0.3% each year, or $21 per employee (0.003*$7,000), until the rate is either 6.2% or the fund does not require additional advances.

For CY 2011 the increase in employer cost for the federal unemployment insurance tax is estimated to be about $52 M and would increase by about $52 M per year for the next three or four years to a maximum of $177 M to $200 M. The net savings to employers is about $38 M over current law in CY 2011 ($180 M reduction in premiums - $90 M surcharge - $52 M federal unemployment rate increase), and the net savings would be about $48 M in CY 2012 ($242 M reduction in premiums - $90 M surcharge - $104 M federal unemployment rate increase).

Explanation of Local Expenditures: The impact on local units would be employers.

Explanation of Local Revenues:

State Agencies Affected: Department of Workforce Development, All.

Local Agencies Affected: All.

Information Sources: Department of Workforce Development.

Fiscal Analyst: Chuck Mayfield, 317-232-4825.